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FCC Mail Room

Before the
Federal Communications Commission
Washington, D.C. 20554

In the Matter of	)	
	)	
Connect America Fund	)	WC Docket No. 10-90
	)	
A National Broadband Plan for Our Future	)	GN Docket No. 09-51
	)	
Establishing Just and Reasonable Rates for Local Exchange Carriers	)	WC Docket No. 07-135
	)	
High-Cost Universal Service Support	)	WC Docket No. 05-337
	)	
Developing a Unified Intercarrier Compensation Regime	)	CC Docket No. 01-92
	)	
Federal-State Joint Board on Universal Service	)	CC Docket No. 96-45
	)	
Lifeline and Link-Up	)	WC Docket No. 03-109

NOTICE OF INQUIRY AND NOTICE OF PROPOSED RULEMAKING

Adopted: February 8, 2011 **Released: February 9, 2011**

Comment Date on Section XV: [30 days after date of publication in the Federal Register]
Reply Comment Section XV: [45 days after date of publication in Federal Register]
Comment Date on the Remaining Sections: [45 days after date of publication in the Federal Register]
Comment Date of State Members of the Federal-State Joint Board on Universal Service: [59 days after date of publication in the federal Register]
Reply Comment Date on Remaining Sections: [80 days after date of publication in the Federal Register]

Comments of: Fidelity Telephone Company

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I. INTRODUCTION

Fidelity Telephone Company ("Fidelity") submits these comments in response to the Federal Communications Commission's ("FCC") Notice of Inquiry and Notice of Proposed Rulemaking ("NPRM") released February 9, 2011. The FCC proposes comprehensive reform to the current Universal Service Fund ("USF") and Intercarrier Compensation ("ICC") system by transiting the current USF support to a broadband focused Connect America Fund ("CAF") and to replace the current ICC system which is currently based on per-minute compensation.

Fidelity previously filed comments on July 12, 2010 in response to the FCC's NPRM released April 21, 2010 in the matter of a CAF, a national broadband plan ("NBP") and USF support. Fidelity is a rural local exchange company that has been in business since 1940. Our office is in Sullivan, Missouri and we have a staff of over 100 employees. Fidelity offers a wide array of communications services including voice, long distance, video and broadband services at speeds up to 10Mbps. Fidelity has steadily upgraded its network by adding fiber deeper into its network and by adding broadband equipment with the capability of reaching faster speeds and more subscribers. We are a company that is responsive to the needs of our customers and take pride in providing quality voice and data services because our customers are also our neighbors.

In Fidelity's July 12, 2010 comments, Fidelity filed financial documentation with the FCC to support our opinion that the FCC's proposal to cap the legacy support at 2010 levels and phase-out the legacy high-cost funding by 2020 would negatively affect the affordable and dependable voice and data services for our customers. Fidelity requested that the FCC consider the financial impact to the rural companies in its proposed changes to the legacy USF support mechanisms so Fidelity can continue to maintain affordable services to our customers.

Fidelity wishes to comment on and address the financial impact of the proposed rule changes documented in Appendix A of this NPRM. Fidelity's comments address the following areas:

- Changes to the High Cost Loop Support("HCLS") calculation
- Elimination of the Safety-net Additive ("SNA")
- High Cost Loop change for Corporate Operations Expense
- Local Switching Support ("LSS") changes and elimination of LSS
- Interstate Common Line Support ("ICLS") changes for Corporate Operation Expense

II. IMPACT OF THE FCC's PROPOSED CHANGES TO USF SUPPORT

Fidelity presents comments and supporting financial documentation to the FCC to provide information related to the impact of the FCC's proposed changes to Fidelity's customers if the reduced USF amount is to be recovered through SLCs or an increase to the local rate to recover the losses from the following changes:

A. Changes to the High Cost Loop Support calculation - The FCC proposes, ***beginning January 1, 2012***, to revise that portion of the HCLS algorithm to fifty-five percent (55%) of the study average unseparated cost per working loop ("SACPL") as calculated by §36.622 (b) in excess of 115 percent of the national average cost per loop ("NACPL") but not greater than 150 percent of the NACPL. Also ***beginning January 1, 2012***, the FCC proposes to revise that portion of the HCLS algorithm to sixty-five percent (65%) of the study average unseparated cost per working loop ("SACPL") as calculated by §36.622 (b) in excess of 150 percent of the NACPL.

Fidelity does not believe that the FCC should revise these percentages as this will reduce support for those ILECs who invested using the higher percentages and depended upon that revenue to be predictable. Shifting this revenue causes instability in the preservation of universal service based on the principles that USF support should be specific, predictable and sufficient as stated in Section 254 (b)(5) of the Act.

B. ***Safety-net Additive*** – The FCC proposes, for ***calendar year 2012*** payments, that SNA disbursements shall be 75% of the amount calculated for SNA; for ***calendar year 2013*** payments, that SNA disbursements shall be 50% of the calculated SNA; for ***calendar year 2014*** payments, that SNA disbursements shall be 25% of the calculated SNA; and beginning ***January 1, 2015***, no carrier shall receive SNA.

Fidelity believes that the FCC should not eliminate the SNA which was designed to provide support to companies who make significant investments in plant. Many rural companies make periodic major investments. Therefore, for the years that the ILEC makes major investments in plant, usually outside plant or central office equipment, the percent growth in investment per line would probably exceed the 14% threshold. There has been discussion within the industry that perhaps the FCC should consider the overall growth in the investment percentages, rather than calculating and measuring the SNA threshold based on total telephone plant in service on a per-line basis. Using the overall growth in plant would eliminate any skewed results when a company is experiencing a drop in customer access lines. Fidelity requests that the FCC consider alternatives rather than eliminate the SNA.

C. ***Local Switching Support Changes*** – Subject to specified exceptions, ***for calendar year 2012*** payments, LSS shall be 67% of the amount calculated per § 54.301, and ***for the calendar year 2013*** payments, LSS shall be 33% of the amount calculated. ***Beginning January 1, 2014***, no carrier shall receive LSS, subject to specified exceptions.

Fidelity does not agree with the FCC's proposal to eliminate LSS as this will increase the local switching rates that are billed to carriers on a per minute-of-use basis. Fidelity understands that the FCC proposes to eliminate per minute-of-use charges with the migration to an all internet protocol ("IP") network, however, the FCC has yet to identify where the local switching investments and costs will be recovered under an IP network.

Fidelity purchased a soft-switch and is in the process of migrating customers to that switching platform. Fidelity encourages the FCC to further study the costs related to switching and implement reforms that appropriately address the migration of local switching costs to an IP network.

D. ***High Cost Loop Change*** – The FCC proposes that for purposes of calculating universal service support payments ***in the calendar year 2012***, total corporate operations expense shall be limited to the lesser of § 36.621(a)(4)(i) or (ii) multiplied by 67%. ***In the calendar year 2013***, total corporate operations expense shall be limited to the lesser of §36.621(a)(4)(i) or (ii), multiplied by 33%. ***Beginning January 1, 2014***, corporate operations expense shall no longer be eligible for purposes of calculating universal support payments.

Fidelity's comments on the elimination of corporate operations expenses are provided below.

E. Interstate Common Line Support Changes – For purposes of calculating ICLS, ***for calendar year 2012***, corporate operations expense allocated to the Common Line Revenue Requirement pursuant to § 69.409 shall be reduced by multiplying the corporate operations expense allocated by 67%. For calendar year 2013, corporate operations expense shall be reduced by multiplying the corporate operations expense by 33%. ***Beginning January 1, 2014***, corporate operations expense shall no longer be eligible for purposes of calculating ICLS.

Fidelity questions the FCC's wisdom in its proposal to limit or eliminate corporate operations expenses from USF support. Most of Fidelity's management functions are recorded in the corporate operations accounts which include executive officer salaries and benefits, regulatory and information services, all accounting functions, human resources, legal, and regulatory consulting expenses. These accounts are used to accumulate the many costs that are required to run a business and meet the multitude of regulatory rules and reporting requirements imposed on a telecommunications company.

The following activities are included in corporate operations expense: preparation of financial reports; filing multiple required FCC forms; monthly reporting obligations for the National Exchange Carrier Association ("NECA") settlements; filing reports required by the State; preparing supporting documentation required for annual cost studies; end user and CABS billing; insurance; executive management of all business practices; preparing business cases;

meeting the Universal Service Administration Company's ("USAC") filing requirements; maintaining employee and payroll records; completing tax returns; and monitoring the financial activities of the company. Corporate operations' functions and their related expenses are essential for the provision of high quality and affordable telecommunications services and these costs should remain in the base for USF and/or CAF support calculations.[1]

F. Financial Impact of FCC proposed USF Reforms

The FCC's NPRM identified the following four priorities for the federal high-cost program: (1) preserve voice services, (2) ensure universal deployment of a modern network capable of supporting broadband applications as well as voice, (3) ensure rates for broadband are reasonably comparable in all regions of the nation; and (4) limit the contribution to households.[2]

The FCC further stated "if the universal service fund grows too large, it will jeopardize other statuary mandates, such as ensuring affordable rates in all parts of the country, and ensuring that contributions from carriers are fair and equitable". Yet, the FCC proposes to reduce the current level of USF support and suggests that rural local exchange carriers ("ILECs"), such as Fidelity, can increase local rates or the Subscriber Line Charge ("SLC") to offset this reduction. This portion of the FCC's proposal would add much more expense to households than an increase in the Federal Universal Service Charge ("FUSC").

Upon analysis of the FCC's proposed reforms to existing USF programs and procedures,

[1] As an alternative to the elimination of corporate operations expense from support, Fidelity would support the use of a cap on corporate operations similar to that used in the current HCLS algorithm
[2] Refer to ¶ 80 of the FCC's NPRM released February 9, 2011

Fidelity calculated the financial impacts of the changes proposed by the FCC and presents the following exhibits to reflect the reductions in revenue per line that will need to be recovered from alternative sources.

Exhibit I, *"Impact of Proposed FCC Changes To Monthly High Cost Support Per Loop"*, provides the amount of USF per line support for Fidelity under current rules and the amount that would be provided under the changes proposed in the FCC's NPRM. If the FCC's proposals are implemented and Fidelity is required to obtain the reduced USF support from its customers, by 2015 Fidelity would need to increase its basic local rates by $ per month per line. Fidelity's current average local rate without additional charges, such as the SLC, FUSC, and 9-1-1 is $. The NPRM states that the rural national average for local rates is $15.62, without additional charges and $25.62 with additional charges.[3] If Fidelity were to increase its local rate to the $15.62 amount, Fidelity would still need an additional increase in the average local rate of another $ per month per line to recover the USF support eliminated or reduced by the FCC's proposals. The average local rate would become $ per month without the estimated $10.00 for additional charges, making Fidelity's rate approximately $ per month. Fidelity strongly believes that none of our customers would consider this rate increase fair and equitable and customers would likely migrate to a wireless service provider if this level of rate increases were implemented, thereby putting us out of business.

Exhibit II, *"Impact of Proposed FCC Changes To High Cost Support"*, provides the

[3] Refer to ¶ 460 of the FCC's NPRM published February 9, 2011

impact of the FCC's proposed changes to the HCLS, LSS and ICLS mechanisms and equates the changes on a per-line, per year basis by each support mechanism. The SNA would be included with the HCL amount.

The exhibit provides the impact related to the FCC USF support mechanisms, LSS, ICLS, SNA and HCLS.

Exhibit III, *"Remaining Life Schedule"*, provides a remaining life schedule based on 2010 balances that indicates Fidelity's fiber plant has an average of approximately 15 years remaining before it is fully depreciated. The purpose of ICLS was to provide recovery for the balance of the common line revenue requirement, including a return on investment and recovery of operating expenses and taxes that are not covered by the SLCs billed to the ILEC customers. In response to customer demand, business plans were developed and implemented based on the FCC's current USF support mechanism rules. The FCC's proposals to reduce the amount of ICLS and transition the remaining balance to the CAF does not consider the legal requirement that USF be sufficient, predictable and provide affordable rates, nor does the FCC consider the remaining life of the plant investments that were made to satisfy the needs of our customers.

By 2015, when the FCC proposes to transition to the CAF, Fidelity's fiber plant will still have about 10.5 years of remaining life. Fidelity believes the FCC's proposed rules need to provide enough specificity that Fidelity can approximately compute revenue requirements and USF support levels in every year, especially in nine, ten or eleven years out when the fiber plant will be fully depreciated and will likely require replacement or an upgrade. Fidelity needs adequate and predictable recovery mechanisms for each of Fidelity's plant investments as they approach the end of their economic remaining lives.

Fidelity requests that the FCC consider the negative impact to rural rate-of-return companies who approved and implemented business plans under one set of rules and, if the FCC's proposals are adopted, will be subject to recovery, or the lack thereof, under another set of rules. If the changes in the FCC's proposed rules are implemented, these changes should be on a forward-looking basis so that revisions are not made in mid-stream and do not jeopardize the recovery of prior investments. Unless the FCC replaces the USF support currently received by Fidelity, and other small ROR ILECS with other support (such as the CAF) for the recovery of our prior investments as authorized under current USF rules, the FCC's proposed changes will place tremendous additional financial burden on our customers who are currently receiving quality and affordable services from Fidelity.

III. TRANSITION TO THE CONNECT AMERICA FUND

The FCC proposes to ultimately provide all funding through a Connect America Fund to provide ongoing support for an IP-based network. The FCC's goal is to transition all remaining high-cost loop support, interstate common line support, and high-cost model support to the CAF.

Under one option, in each part of the country requiring ongoing universal service support, the FCC would hold a competitive, technology-neutral bidding mechanism to select the provider that would serve the area and assume all broadband and voice obligations.

Under another option, the FCC would offer the current voice carrier of last resort ("COLR"), probably an incumbent LEC, the right of first refusal ("ROFR") to serve as the broadband and voice provider for ongoing annual support based on a cost model. If the provider refuses this offer, the FCC would award ongoing support through the competitive bidding process.

In the alternative, the FCC could limit full transition to the CAF to a subset of geographic areas, such as those served by price cap companies, while continuing to provide ongoing support based on reasonable actual investment to smaller rate-of-return companies, including shifting ICLS to an incentive regulation framework.[4]

Fidelity supports the FCC's "alternative" method noted above. However, as discussed in response to the SNA, consideration should be made to special circumstances that may require additional investment by some ILECs in some part of our country. Small rural ROR ILECs operate in accordance with the FCC's rules and regulations. Our track record supports that we serve our customers well.[5]

In 2010, Fidelity received about % of its regulated revenue from current USF support mechanisms; % from interstate services other than LSS and ICLS; 8% from intrastate services; and % from local and miscellaneous services.

Any time that Fidelity loses a customer or a support mechanism, additional pressure is

[4] Refer to paragraphs 398 to 401 in the FCC's NPRM published February 9, 2011
[5] Refer to NECA's 2010 Trends Report

placed on other customer rates or on the need to obtain additional support. The network still needs to be in place, operational and maintained even if the customers migrate away from Fidelity.

Fidelity requests that the FCC ensure there is a recovery replacement mechanism for the reductions to all USF support mechanisms as proposed in this NPRM to ensure affordable local rates are comparable to those in urban areas.

If, and when, the FCC implements CAF for support, Fidelity and the industry need to understand specifically, with granular detail, how the CAF will apply to ILECs.

IV. INTERCARRIER COMPENSATION

The FCC proposes to comprehensively reform the intercarrier compensation system of payments between carriers to compensate each other for the origination, transport and termination of telecommunications traffic. The FCC identified the issues with the current ICC system and provided a framework to address the issues. The FCC offers several proposals, but the end result is to reform the current interstate access charge rules to eliminate per-minute rates and to create a new methodology for reciprocal compensation. The FCC proposes a cost or revenue recovery that could be provided through the CAF. The FCC also seeks comments on providing incentives for states to reduce intrastate intercarrier compensation without penalizing the states that have already begun this process.[6]

[6] Refer to paragraphs 538 to 549 in the FCC's NPRM published February 9, 2011

Fidelity is a Missouri ROR ILEC. Intrastate rates in Missouri are determined by a costly intrastate rate proceeding or rate case which is based upon total regulated operations less interstate operations. Therefore, if the reduced USF support for LSS and ICLS is shifted to the intrastate jurisdiction, Missouri will be required to consider the loss of this USF revenue, as well as the reduction to HCLS which is considered as local revenue in a state rate-making procedure.

Laws have been passed in Missouri that would allow for a State USF, but the industry and the Public Service Commission have not been successful in bringing state access rates into parity with interstate rates for the small rural ROR carriers. Fidelity is concerned that bringing intrastate access rates into parity with interstate rates would have almost as large of an impact on Fidelity's local rates as the proposed reductions in the HCLS, LSS, SNA and ICLS mechanisms. Fidelity estimated that bringing intrastate access rates into parity with interstate access rates would require a % increase to their existing local rate, if not recovered through an intrastate USF. Using the composite local rate of $ times the % rate increase for rate parity, would take Fidelity's local rate to $. Then to add on top of this the additional amount necessary to recover the lost federal USF support of $ would take their local rate to $, before the additional charges estimated at $10.00 for SLCs, 9-1-1, FUSC, and other regulatory authorized surcharges.

Fidelity believes that the intrastate/interstate intercarrier compensation issue should involve the Joint Board and requests the FCC work in partnership with states such as Missouri to achieve intrastate USF and ICC reform.

V. SUMMARY

Fidelity respectively requests that the FCC consider the impact to rural ROR carriers in its desire to bring an all broadband IP network to America. Fidelity has been deploying broadband in its rural network to meet the needs of our customers while other carriers, who serve the more urban areas of the state and also have rural customers, appear to have elected to concentrate its broadband efforts in non rural areas.

Fidelity does not agree with the FCC's proposal to reduce USF support for small rural ILECs who have limited resources and a small customer base in order to provide additional USF or CAF to carriers that have apparently neglected their rural customers. The FCC should consider alternatives such as raising SLCs to the maximum allowed[7] to pay for the deployment of broadband networks before USF is redirected from the high-cost rural ILECs.

Fidelity supports the Rural Associations[8] in their comments and their efforts to assist the FCC in designing a reasonable solution to USF and intercarrier compensation. Some of Fidelity's historical financial information will be included in the data the FCC requested from NECA. Fidelity plans to file additional information with the FCC either through reply comments under the protective order or through an ex parte filing. The additional financial information will provide detailed analysis of the NPRM's Appendix A proposed rules and demonstrate the estimate of the impacts on Fidelity. Additional ICC reform data that was not addressed in these comments may also be provided.

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[7] Refer to the attached Exhibit IV

[8] The National Exchange Carrier Association, Inc., National Telecommunications Cooperative Association, Organization for the Promotion and Advancement of Small Telecommunications Companies, Western Telecommunications Alliance, Eastern Rural Telecom Association, and The Rural Alliance

In Fidelity's comments filed last July[9], Fidelity opposed the use of hypothetical models for rural areas; the use of reverse auctions for rural areas; the implementation of incentive regulation over return regulation; and the creation of a "digital divide". Fidelity has not changed our opinion on these issues.

Respectfully Submitted,

/s/ Dave Beier

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[9] Filed July 10, 2010 in the FCC's NBP WC Docket No. 10-90; GN Docket No. 09-51; WC Docket No. 05-337

National Broadband Plan
Potential Additional Revenues for Large ILECs requesting USF for Unserved Territories
Based on the FCC's December 2010 Monitoring Report - Table 7.9

TOP 6 COMPANIES ONLY

	Subscriber Line Charge - Monthly Rates			Variance Needed to get to Standard			2008 Avg Monthly Access Lines (in 1000s)			**Potential Annual SLC Revenue Available for Broadband Deployment and NOT Needed from USF**			
Company	Res & SLB	Non-Primary	MLB & Centrex	Res & SLB	Non-Primary	MLB & Centrex	Res & SLB	Non-Primary	MLB & Centrex	Res & SLB	Non-Primary	MLB & Centrex	Total
AT&T	$ 5.48	$ 5.24	$ 5.40	$ 1.02	$ 1.76	$ 3.80	27,857	2,937	16,616	$ 340,969,680	$ 62,029,440	$ 757,689,600	$ 1,160,688,720
Century Link	5.75	5.53	6.93	0.75	1.47	2.27	4,934	297	1,721	44,406,000	5,239,080	46,880,040	96,525,120.00
Frontier	6.39	6.89	8.83	0.11	0.11	0.37	4,207	205	1,407	5,553,240	270,600	6,247,080	12,070,920.00
Qwest	5.97	6.09	6.29	0.53	0.91	2.91	5,854	519	2,514	37,231,440	5,667,480	87,788,880	130,687,800.00
Verizon	6.21	6.18	6.48	0.29	0.82	2.72	15,955	1,826	8,254	55,523,400	17,967,840	269,410,560	342,901,800.00
Windstream	6.34	6.55	7.89	0.16	0.45	1.31	1,839	306	752	3,530,880	1,652,400	11,821,440	17,004,720.00
TOTALS - TOP 6 ILECS										**$ 487,214,640**	**$ 92,826,840**	**$ 1,179,837,600**	**$ 1,759,879,080**
TOTALS - WITHOUT NON-PRIMARY LINES										**$ 487,214,640**	**N/A**	**$ 1,179,837,600**	**$ 1,667,052,240**

FCC CAP = Assumed Standard	**$ 6.50**	**$ 7.00**	**$ 9.20**